

COMMISSIONERS
SUSAN BITTER SMITH - Chairman
BOB STUMP
BOB BURNS
DOUG LITTLE
TOM FORESE

OPEN MEETING IT



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ARIZONA CORPORATION COMMISSION RECEIVED

ORIGINAL

2015 NOV 20 P 1:29

DATE:

NOVEMBER 20, 2015

AZ CORP COMMISSION
DOCKET CONTROL

DOCKET NO.:

W-02060A-15-0245

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Marc Stern. The recommendation has been filed in the form of an Order on:

CORDES LAKES WATER COMPANY
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

NOVEMBER 30, 2015

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

DECEMBER 8, 2015 AND DECEMBER 9, 2015

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission

DOCKETED

NOV 20 2015

DOCKETED BY	<i>[Signature]</i>
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[Signature]

JODI JERICH
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET; PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET; TUCSON, ARIZONA 85701-1347

This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail SABernal@azcc.gov.

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 SUSAN BITTER SMITH - Chairman
4 BOB STUMP
5 BOB BURNS
6 DOUG LITTLE
7 TOM FORESE

8 IN THE MATTER OF THE APPLICATION OF
9 CORDES LAKES WATER COMPANY FOR
10 APPROVAL OF A RATE INCREASE.

DOCKET NO. W-02060A-15-0245

DECISION NO. _____

11 **ORDER**

12 Open Meeting
13 December 8 and 9, 2015
14 Phoenix, Arizona

15 **BY THE COMMISSION:**

16 On July 2, 2015, Cordes Lakes Water Company ("Company" or "Applicant") filed with the
17 Arizona Corporation Commission ("Commission") an application for an increase in its permanent rates
18 and charges.

19 The Company filed certification with its application for a rate increase that Applicant had
20 mailed with its regular customer billing a notice of its proposed rates and charges to its customers of
21 record on July 1, 2015. To date, the Commission has not received any comments or protests.

22 On July 30, 2015, the Commission's Utilities Division ("Staff") filed a Notice of Sufficiency
23 for the Company's rate application, pursuant to Arizona Administrative Code ("A.A.C.") R14-2-103,
24 and classified the Company as a Class D utility.

25 On October 13, 2015, Staff filed a Staff Report which recommends approval of Staff's
26 recommended rates and charges.

27 On October 19, 2015, the Company filed comments to the Staff Report stating that it agrees
28 with all of the recommendations proposed by Staff and does not believe that a hearing is required on
its application.

* * * * *

Having considered the entire record herein and being fully advised in the premises, the

1 Commission finds, concludes, and orders that:

2 **FINDINGS OF FACT**

3 1. Pursuant to authority granted by the Commission in Decision No. 39646 (September 13,
4 1968) the Company is a for profit C corporation which is engaged in the business of providing public
5 water utility service in the vicinity of Cordes Junction in Yavapai County, Arizona.

6 2. On July 2, 2015, the Company filed an application requesting authority to increase its
7 rates and charges for water service.

8 3. Applicant's present rates and charges for water service were approved in Decision No.
9 74155 (November 1, 2013).

10 4. On July 30, 2015, after the Company filed its additional information, Staff filed a Notice
11 of Sufficiency and classified the Company as a Class D utility.

12 5. The Company filed certification with its application that it had provided public notice
13 to its customers of its proposed rates and charges by mailing with the customers' regular bills notice of
14 the Company's proposed rates.

15 6. During the test year ending December 31, 2014 ("TY"), Applicant served approximately
16 1,333 customers of which the majority are residential users who are served by 3/4-inch meters.

17 7. Average and median usage of water for customers with 3/4-inch meters during the TY
18 were 3,753 and 2,814 gallons per month, respectively.

19 8. On October 13, 2015, Staff filed its Staff Report in response to the Company's rate
20 request after conducting an analysis of the Applicant's proposed rates and charges for water service.
21 Staff recommended that the Commission issue a Decision which approves Staff's proposed rates.

22 9. On October 19, 2015, the Company filed Comments to the Staff Report stating that the
23 Company agrees with all of the recommendations contained in the Staff Report.

24 10. Staff found, and the Company agreed, that Applicant's fair value rate base ("FVRB") is
25 \$242,011, which is the same as the original cost rate base.¹

26 11. Staff made five adjustments to operating income, decreasing the Company's proposed
27

28 ¹ Staff made two adjustments to the Company's proposed rate base and these minor adjustments resulted in a \$1,274 net increase to the Company's proposed rate base, from \$240,737 to \$242,011.

total operating loss by \$14,003, from \$56,382 to \$42,380.

12. The water rates and charges for the Company at present, as recommended by Staff and as agreed to by the Company are as follows:

<u>MONTHLY USAGE CHARGES:</u>	<u>Present Rates</u>	<u>Staff Recommended Rates²</u>
5/8 x 3/4-Inch Meter	N/A	\$14.40
3/4-Inch Meter	\$11.75	14.40
1-Inch Meter	19.50	24.00
1 1/2-Inch Meter	39.25	48.00
2-Inch Meter	62.50	76.80
3-Inch Meter	125.00	153.60
4-Inch Meter	220.00	240.00
6-Inch Meter	390.00	480.00
<u>Commodity Rate: (Per 1,000 gallons)</u>		
<u>5/8 x 3/4-Inch Meter</u>		
0 to 3,000 gallons	\$2.85	\$3.43
3,001 to 8,000 gallons	4.25	5.11
Over 8,000 gallons	6.50	7.01
<u>3/4-Inch Meter</u>		
0 to 3,000 gallons	2.85	3.43
3,001 to 8,000 gallons	4.25	5.11
Over 8,000 gallons	6.50	7.01
<u>1-Inch Meter</u>		
0 to 10,000 gallons	4.25	5.11
Over 10,000 gallons	6.50	7.01
<u>1 1/2-Inch Meter</u>		
0 to 17,000 gallons	4.25	5.11
Over 17,000 gallons	6.50	7.01
<u>2-Inch Meter</u>		
0 to 26,000 gallons	4.25	5.11
Over 26,000 gallons	6.50	7.01
<u>3-Inch Meter</u>		
0 to 50,000 gallons	4.25	5.11
Over 50,000 gallons	6.50	7.01
<u>4-Inch Meter</u>		
0 to 75,000 gallons	4.25	5.11
Over 75,000 gallons	6.50	7.01

² As stated in the Company's Comments to Staff Report on October 19, 2015, Applicant agrees with all recommendations contained therein which includes Staff's recommended rates and charges.

6-Inch Meter

0 to 150,000 gallons	4.25	5.11
Over 150,000 gallons	6.50	7.01
Bulk Water (per 1,000 Gallons)		\$7.01
Construction (per 1,000 Gallons)		7.01

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-405)

	<u>Present</u> <u>Service</u> <u>Line</u> <u>Charges</u>	<u>Present</u> <u>Meter</u> <u>Installation</u> <u>Charges</u>	<u>Present</u> <u>Total</u>	<u>Staff</u> <u>Recommended</u> <u>Service Line</u> <u>Charges</u>	<u>Staff</u> <u>Recommended</u> <u>Meter</u> <u>Installation</u> <u>Charges</u>	<u>Staff</u> <u>Recommended</u> <u>Total</u>
5/8 x 3/4" Meter	N/A	N/A	N/A	N/A	N/A	N/A
3/4" Meter	\$426	\$198	\$624	\$426	\$198	\$624
1" Meter	486	246	732	486	246	732
1 1/2" Meter	528	498	1,026	528	498	1,026
2" Meter	720	1,098	1,818	720	1,098	1,818
3" Meter	930	1,764	2,694	930	1,764	2,694
4" Meter	1,332	2,700	4,032	1,332	2,700	4,032
6" Meter	2,000	5,350	7,350	2,000	5,350	7,350

SERVICE CHARGES:

	<u>Present</u> <u>Rates</u>	<u>Staff</u> <u>Recommended</u>
Establishment	\$30.00	\$30.00
Establishment (After Hours)	N/T	N/T
Reconnection (Delinquent)	\$20.00	\$20.00
Meter Test (If Correct)	30.00	30.00
Deposit	*	*
Deposit Interest	*	*
Re-Establishment (Within 12 Months)	**	**
NSF Check	\$15.00	\$15.00
Deferred Payment	1.5%	1.5%
Meter Re-Read (If Correct)	\$12.00	\$12.00
Late Fee	1.5%	1.5%
After Hours Charge	\$35.00	\$35.00
Road Cutting or Boring	N/T	At Cost

MONTHLY SERVICE CHARGE FOR FIRE SPRINKLERS:

4" or Smaller	***	***
6"	***	***
8"	***	***
10"	***	***
Larger than 10"	***	***

* Per Commission Rule A.A.C. R14-2-403(B).

** Number of months off the system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).

*** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for fire sprinklers is only applicable for service lines separate and distinct from the primary service line.

1 13. According to the Staff Report, the Company experienced an operating loss of \$42,380
2 during the TY. Staff is recommending, and the Company is in agreement, to rates and charges which
3 would produce an increase in revenue of \$84,243 over TY operating revenue to produce adjusted
4 operating revenues of \$516,440 and adjusted operating expenses of \$492,238, resulting in net operating
5 income of \$24,201, or a 10.0 percent rate of return on FVRB.

6 14. Staff and the Company agreed to an increase in operating expenses of approximately
7 \$17,662, which sum recognizes increases for property tax and income tax obligations on the authorized
8 revenue.

9 15. The projected 10 percent rate of return on FVRB of \$242,011, as recommended by Staff,
10 was agreed to by the Company.

11 16. Staff's recommended rates and charges, as agreed to by the Company, would increase
12 the average monthly customer water bill by 21.44 percent, from \$23.50 to \$28.54, and increase the
13 median monthly customer water bill by 21.66 percent, from \$19.77 to \$24.05.

14 17. According to Staff, the Arizona Department of Environmental Quality ("ADEQ") has
15 indicated that the Company is providing water which meets the requirements of the Safe Drinking
16 Water Act.

17 18. As was found in Decision No. 74155, the Company continues to experience excessive
18 water loss. Staff found that during the TY, based on the Company's data, the Company experienced a
19 water loss of 24.68 percent.

20 19. As a result of Staff's determination in the prior proceeding that the Company was
21 experiencing water losses in excess of 10 percent annually, the Company was ordered to file, within
22 six months of the effective date of Decision No. 74155, an application for financing approval to
23 construct improvements to its system.

24 20. On November 13, 2014, in Docket No. W-02060A-14-0387, the Company filed an
25 application for approval to borrow up to \$200,000 from the Water Infrastructure and Finance Authority
26 ("WIFA") for system improvements to prevent future excessive water losses.

27 21. On April 7, 2015, the Company filed a Motion to Withdraw its Financing Application
28 stating that, due to the "delay" since the Company's last rate case, both Staff and the Company

1 concluded that it would be beneficial to withdraw the pending financing application and to refile a new
2 application once more information was "available regarding the projects the Company seeks to
3 finance."

4 22. On April 28, 2015, Staff filed its response stating that it had no objection to the
5 Company's Motion to Withdraw its Financing Application.

6 23. On May 13, 2015, by Procedural Order, the Motion was granted and the docket was
7 closed administratively.

8 24. Given, the water loss problem that continues for the Company, Staff recommended that
9 the Company should soon take steps to resolve this situation.

10 25. Staff concluded that the Company's current well production and storage capacities are
11 adequate to serve the existing customers, and for reasonable future growth.

12 26. Staff further indicated that there are no delinquent property tax or compliance items for
13 the Company, and it has previously filed a curtailment plan and a back flow prevention tariff which
14 have been approved by the Commission. Additionally, the Company has five Best Management
15 Practice ("BMP") Tariffs on file with the Commission.

16 27. Staff also noted in its report that the Company should be placed on notice that long-term
17 debt obligations require prior Commission approval before accruing such debt.

18 28. The Company should maintain its books and records in accordance with the National
19 Association of Regulatory Utility Commissioners ("NARUC"), Uniform System of Accounts
20 ("USOA").

21 29. Because an allowance for the property tax expense of Applicant is included in the
22 Company's rates and will be collected from its customers, the Commission seeks assurances from the
23 Company that any taxes collected from rate payers have been remitted to the appropriate taxing
24 authority. It has come to the Commission's attention that a number of water companies have been
25 unwilling or unable to fulfill their obligation to pay the taxes that were collected from ratepayers, some
26 for as many as 20 years. It is reasonable, therefore, that as a preventive measure, the Company shall
27 annually file, as part of its annual report, an affidavit with the Utilities Division attesting that the
28 Company is current and paying its property taxes in Arizona.

30. Under the circumstances, we find that Staff's recommendations as to rate base, rate of return, and rates and charges, which the Company has agreed to, are reasonable and should be adopted, as well as Staff's additional recommendations as follows:

- in addition to collection of its regular rate and charges, the Company shall collect from its customers a proportionate share of any privilege, sales or use tax per A.A.C. R 14-2-409(D)(5);
- the Company shall, within 30 days of the effective date of this Decision, file with the Commission a schedule of its approved rates and charges;
- the Company shall adopt the depreciation rates shown in Table F of the Engineering Report;
- the Company shall notify its customers of the authorized rates and charges approved in this proceeding and their effective date, in a form acceptable to Staff, by means of an insert in its next regular scheduled billing and shall file copies with Docket Control within 10 days of the date notice is sent to customers;
- the Company shall apply for Commission approval prior to incurring any long-term debt;
- the Company shall re-classify notes / payables to affiliates, which are owed for longer than 12 months to Paid in Capital on the Company's balance sheet;
- the Company shall monitor and record monthly water losses and repair all leaks when discovered and located;
- the Company shall install identification signs at each of its well sites to include, at a minimum, the plant site name, Arizona Department of Water Resources ("ADWR") well number and emergency phone number; and
- the Company shall repair or replace the hydro-pneumatic tank at Well Site No.4.

CONCLUSIONS OF LAW

1. Applicant is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2. The Commission has jurisdiction over Applicant and of the subject matter of the application.

3. Notice of the application was provided in the manner proscribed by law.

4. Under the circumstances discussed herein, the rates and charges for the Company as authorized hereinafter are just and reasonable and should be approved.

5. Staff's recommendations, as agreed to by the Company, in Findings of Fact No. 30 are reasonable and should be adopted.

ORDER

IT IS THEREFORE ORDERED that Cordes Lakes Water Company is hereby directed to file with the Commission's Docket Control, as a compliance item in this docket, on or before December 31, 2015, revised rate schedules setting forth the following rates and charges:

MONTHLY USAGE CHARGES:

5/8 x 3/4-Inch Meter	\$14.40
3/4-Inch Meter	14.40
1-Inch Meter	24.00
1 1/2-Inch Meter	48.00
2-Inch Meter	76.80
3-Inch Meter	153.60
4-Inch Meter	240.00
6-Inch Meter	480.00

Commodity Rate: (Per 1,000 gallons)

5/8 x 3/4-Inch Meter

0 to 3,000 gallons	\$3.43
3,001 to 8,000 gallons	5.11
Over 8,000 gallons	7.01

3/4-Inch Meter

0 to 3,000 gallons	3.43
3,001 to 8,000 gallons	5.11
Over 8,000 gallons	7.01

1-Inch Meter

0 to 10,000 gallons	5.11
Over 10,000 gallons	7.01

1 1/2-Inch Meter

0 to 17,000 gallons	\$5.11
Over 17,000 gallons	7.01

2-Inch Meter

0 to 26,000 gallons	5.11
Over 26,000 gallons	7.01

...

3-Inch Meter

0 to 50,000 gallons	5.11
Over 50,000 gallons	7.01

4-Inch Meter

0 to 75,000 gallons	5.11
Over 75,000 gallons	7.01

6-Inch Meter

0 to 150,000 gallons	5.11
Over 150,000 gallons	7.01

Bulk Water (per 1,000 Gallons)	7.01
Construction (per 1,000 Gallons)	7.01

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-405)

	<u>Service Line</u> <u>Charges</u>	<u>Meter</u> <u>Installation</u> <u>Charges</u>	<u>Total</u>
5/8 x 3/4" Meter	N/A	N/A	N/A
3/4" Meter	\$426	\$198	\$624
1" Meter	486	246	732
1 1/2" Meter	528	498	1,026
2" Meter	720	1,098	1,818
3" Meter	930	1,764	2,694
4" Meter	1,332	2,700	4,032
6" Meter	2,000	5,350	7,350

SERVICE CHARGES:

Establishment	\$30.00
Establishment (After Hours)	N/T
Reconnection (Delinquent)	\$20.00
Meter Test (If Correct)	30.00
Deposit	*
Deposit Interest	*
Re-Establishment (Within 12 Months)	**
NSF Check	\$15.00
Deferred Payment	1.5%
Meter Re-Read (If Correct)	\$12.00
Late Fee	1.5%
After Hours Charge	\$35.00
Road Cutting or Boring	At Cost

MONTHLY SERVICE CHARGE
FOR FIRE SPRINKLERS:

4" or Smaller	***
6"	***
8"	***
10"	***
Larger than 10"	***

* Per Commission Rule A.A.C. R14-2-403(B).

1 ** Number of months off the system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).

2 *** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00
3 per month. The Service Charge for fire sprinklers is only applicable for service lines separate and
4 distinct from the primary service line.

5 IT IS FURTHER ORDERED that Cordes Lakes Water Company shall notify its customers of
6 the water rates and charges approved hereinabove, and their effective date, by means of an insert in its
7 next monthly billing in a form approved by the Utilities Division.

8 IT IS FURTHER ORDERED that the rates and charges authorized hereinabove shall be
9 effective for all service provided on or after January 1, 2016.

10 IT IS FURTHER ORDERED that Cordes Lakes Water Company shall adopt the depreciation
11 rates shown on Table F of the Engineering Report attached to the Staff Report on a going forward basis.

12 IT IS FURTHER ORDERED that Cordes Lakes Water Company, in addition to the collection
13 of its regular rates and charges, shall collect from its customers their proportionate share of any
14 privilege, sales or use tax as provided for in A.A.C. R14-2-409(D)(5).

15 IT IS FURTHER ORDERED that Cordes Lakes Water Company shall keep its books and
16 records in accordance with the National Association of Regulatory Utility Commissioners Uniform
17 System of Accounts on a going forward basis.

18 IT IS FURTHER ORDERED that Cordes Lakes Water Company shall closely monitor and
19 record monthly water losses and repair all leaks when discovered and located.

20 IT IS FURTHER ORDERED that Cordes Lakes Water Company shall apply for approval prior
21 to incurring any long-term debt.

22 IT IS FURTHER ORDERED that Cordes Lakes Water Company shall reclassify
23 notes/payables to affiliates that are owed for periods longer than 12 months to Paid in Capital on the
24 Company's balance sheet.

25 IT IS FURTHER ORDERED that Cordes Lakes Water Company shall install identification
26 signs at each of its well sites to include, at a minimum, the plant site name, Arizona Department of
27 Water Resources well number, and emergency phone number.

28 IT IS FURTHER ORDERED that Cordes Lakes Water Company shall repair or replace the
hydro-pneumatic tank at Wellsite No. 4.

1 IT IS FURTHER ORDERED that Cordes Lake Water Company shall annually file as part of
2 its annual report, an affidavit with the Utilities Division attesting that the Company is current in paying
3 its property taxes in Arizona.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.
6
7

8 CHAIRMAN _____ COMMISSIONER _____
9

10 COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER _____
11

12 IN WITNESS WHEREOF, I, JODI JERICH, Executive Director
13 of the Arizona Corporation Commission, have hereunto set my
14 hand and caused the official seal of the Commission to be affixed
15 at the Capitol, in the City of Phoenix, this _____ day
16 of _____ 2015.

17 JODI JERICH
18 EXECUTIVE DIRECTOR

19 DISSENT _____
20

21 DISSENT _____
22 MS:ru
23
24
25
26
27
28

1 SERVICE LIST FOR:

CORDES LAKES WATER COMPANY

2 DOCKET NO.:

W-02060A-15-0245

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